

Message Text

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C O N F I D E N T I A L BRASILIA 9400

LIMDIS

E. O. 11652: GDS

TAGS: TECH, BR

SUBJECT: FRG - BRAZIL URANIUM ENRICHMENT DEAL

REF: BRASILIA 9177

SUMMARY: WESTINGHOUSE REPORTS MINISTER OF MINES UEKI HAS CONFIDENTIALLY TOLD THEIR BRAZILIAN PARTNER, COBREL, THAT PROTOCOL ON NUCLEAR INDUSTRIAL PROGRAM, NEGOTIATED WITH FRG LAST OCTOBER, HAS NOW BEEN APPROVED BY FRG AND WILL BE ANNOUNCED WITHIN NEXT FEW DAYS. PACKAGE INCLUDES URANIUM ENRICHMENT DEMONSTRATION PLANT, USING BECKER NOZZLE PROCESS, AND BACK-UP GUARANTEE TO SUPPLY URANIUM ENRICHMENT SERVICES, IF BECKER SYSTEM SHOULD NOT WORK. END SUMMARY.

2. IN ACCORDANCE WITH STEPS OUTLINED REFTTEL, EMBASSY ARRANGED APPOINTMENT DECEMBER 16 FOR COMPANY REPS TO MEET WITH SECRETARY
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GENERAL MINISTRY OF MINES AND INDUSTRY, ARNALDO BARBALHO.

APPOINTMENT WAS AT WESTINGHOUSE REQUEST AND INCLUDED COMPANY REPS HEINNEMAN, BIRNBAUM AND MURPHY. MINISTER UEKI, WITH WHOM WESTINGHOUSE SOUGHT APPOINTMENT, WAS NOT AVAILABLE, BUT SENIOR REPRESENTATIVE OF WESTINGHOUSE'S BRAZILIAN PARTNER, COBREL, (AN AFFILIATE OF SIMONSEN BANKING INTERESTS), SAW UEKI IN SAO PAULO DECEMBER 13. WESTINGHOUSE REPS CALLED ON CHARGE BEFORE MEETING WITH SECGEN AND ON ECON COUNSELOR AFTER THE MEETING.

3. ACCORDING TO WESTINGHOUSE, THEIR BRAZILIAN ASSOCIATES WERE TOLD BY UEKI THAT PROTOCOL ON NUCLEAR INDUSTRIAL PROGRAM, NEGOTIATED WITH THE GERMANS IN OCTOBER, HAD BEEN "RATIFIED" BY THE FRG ON DECEMBER 12 AND WOULD BE ANNOUNCED WITHIN NEXT FEW DAYS. UEKI REPORTEDLY SAID THAT PROTOCOL COVERS FULL NUCLEAR STEAM SUPPLY SYSTEM - EQUIPMENT, SERVICES AND TECHNOLOGY - ON A JOINT VENTURE BASIS WITH COMPLEMENTARY PRODUCTION ESTABLISHED IN BOTH COUNTRIES. PROGRAM WOULD COVER CONSTRUCTION OF 8 REACTORS BY 1990, WHICH WOULD COMPLETE COUNTRY'S NUCLEAR PROGRAM FOR NEXT 15 YEARS. GERMANS AGREED TO BUILD A BECKER NOZZLE DEMONSTRATION PLANT IN BRAZIL, WITH A BACKUP GUARANTEE TO SUPPLY URANIUM ENRICHMENT SHOULD BECKER SYSTEM NOT WORK OUT. UEKI SAID PROGRAM WOULD BE COVERED BY IAEA SAFEGUARD.

4. UEKI, ACCORDING TO SOURCE, NOTED THAT AGREEMENT WITH FRG IS NOT EXCLUSIVE AND LEAVES OPEN OPPORTUNITY FOR PARALLEL AGREEMENTS WITH OTHER COUNTRIES. UEKI REPORTEDLY ACKNOWLEDGED STRONGER TECHNICAL CAPACITY OF WESTINGHOUSE BUT SAID THAT GOB HAD CONCLUDED, PARTICULARLY FOLLOWING DISAPPOINTMENT OVER AEC CONDITIONAL ENRICHMENT CONTRACTS AND DELAYS AND UNCERTAINTIES RELATED TO AMENDMENT OF BILATERAL AGREEMENT, THAT US COULD NOT BE CONSIDERED A RELIABLE SUPPLIER OF NUCLEAR COMPONENTS, SERVICES OR TECHNOLOGY. UEKI SAID THAT GOB COULD NOT AFFORD A NUCLEAR POLICY THAT DEPENDED ON ACTIONS AND ATTITUDES OF US CONGRESS.

5. WESTINGHOUSE REPS ALSO TOLD CHARGE THAT CNEN CHAIRMAN CARVALHO HAD TOLD THEM RECENT DISCUSSIONS WITH FRENCH ON NUCLEAR INDUSTRY PROGRAM HAD NOT COME TO ANYTHING BECAUSE FRENCH WERE UNWILLING TO MAKE THEIR TECHNOLOGY AVAILABLE TO CONFIDENTIAL

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BRAZIL. THEY SPECULATED THAT UEKI'S REFERENCE TO POSSIBILITY OF PARALLEL AGREEMENTS MEANT THAT GOB MIGHT WANT WESTINGHOUSE TO FURNISH SOME COMPONENTRY IN COLLABORATION WITH KWU.

6. COMPANY REPS REPORTED THAT MEETING WITH SECGEN WENT WELL BUT THAT THEY FOUND IT IMPOSSIBLE TO TELL WHETHER WESTINGHOUSE STILL IN THE RUNNING FOR BRAZIL'S NUCLEAR PROGRAM. SECGEN SPENT CONSIDERABLE TIME WITH

COMPANY REPS, PARTICIPATED IN COMPREHENSIVE PRESENTATION AND DISCUSSION OF WESTINGHOUSE PROPOSALS, AND PROMISED TO SUGGEST TO UEKI MEETING WITH WESTINGHOUSE SENIOR VICE PRESIDENT SOMETIME IN JANUARY. WHILE PESSIMISTIC PRIOR TO MEETING WITH SEC GEN, COMPANY REPS APPEARED TO BE CONSIDERABLY MORE RELAXED ABOUT WESTINGHOUSE'S FUTURE ROLE IN BRAZIL AFTER THE MEETING.

7. IN DISCUSSION IMPLICATIONS OF REPORTED FRG-BRAZILIAN UNDERSTANDING WITH CHARGE AND ECON COUNSELOR, WESTINGHOUSE REPS SAW BRAZILIAN DEAL AS PART OF GLOBAL GERMAN STRATEGY, CONCENTRATED ON IRAN, SOUTH AFRICA, AND BRAZIL, WHICH RELIES ON OFFERS OF NUCLEAR ENRICHMENT SERVICES TO PENETRATE WORLD MARKET FOR NUCLEAR EQUIPMENT, TO PROMOTE GERMAN COMMERCIAL INTERESTS AND PROVIDE FRG WITH DIVERSIFIED SUPPLY PATTERN OF NUCLEAR FUEL IN THE LONG TERM. WESTINGHOUSE EXPERIENCE IN BRAZIL HAD CLOSE PARALLEL IN IRAN WHERE GERMANS ALSO HAD STRENGTHENED PROPOSALS BY INCLUDING ATTRACTIVE OFFER OF ENRICHMENT SERVICES. AS PART OF ITS STRATEGY, FRG HAD MADE MAJOR EFFORT TO TIE UP ENRICHMENT SERVICES SUCH AS SUBSTANTIAL PORTION OF FRENCH CAPACITY AND FRG-SOVIET ARRANGEMENT. REPS SPECULATED ABOUT NEW PRESSURES WHICH WESTINGHOUSE, WORKING WITHIN FRAMEWORK EXISTING US POLICY, WOULD BE FACING FROM OTHER COUNTRIES THAT WOULD NOW BE TEMPTED TO REVIEW DESIRABILITY OF NATIONAL ENRICHMENT CAPABILITY ONCE GERMAN-BRAZILIAN ARRANGEMENT BECOMES KNOWN.

8. COMMENT: WHILE REPORT OF FRG-GOB AGREEMENT IS BAD NEWS FOR US FIRMS, ON BALANCE, EMBASSY BELIEVES THAT GOB WILL SEEK TO KEEP WESTINGHOUSE AND OTHER US SUPPLIERS, SUCH AS GE, INTERESTED. WE HAVE AHD VARIOUS INDICATIONS OF THIS, INCLUDING CONGEN RIO REPORT THAT CARVALHO, HEAD OF CNEN, JUST RECENTLY ENCOURAGED GE REPS, AND GE, IN FACT, HAS QUIETLY

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VISITED BRASILIA WITHIN LAST FEW WEEKS. WHILE GERMAN FIRMS WOULD UNDOUBTEDLY HAVE FIRST CHOICE AS SUBCONTRACTORS OF KWU, GOB WILL WANT TO KEEP OPTIONS OPEN IN CASE GERMAN PROGRAM RUNS INTO TECHNICAL OR FINANCIAL DIFFICULTIES AND TO PRESERVE ACCESS TO US TECHNOLOGY AND PERHAPS PARTICIPATION BY US FIRMS IN BUILD-UP OF INDIGENOUS INDUSTRIAL CAPABILITY WHICH WILL BE A MAJOR BRAZILIAN OBJECTIVE.

JOHNSON

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